

Report of Examination
Pacific Northwest Title Insurance Company
Seattle, Washington
December 31, 1995

State Participating
Washington

Affidavit of Chief Examiner

I certify that I have reviewed the Report of the Financial Examination of Pacific Northwest Title Insurance Company, Inc. of Seattle, Washington, as of December 31, 1995.

Jacqueline L. Gardner, CFE, FLMI
Chief Examiner

Date: _____

Pacific Northwest Title Insurance Company

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October 1, 1996

Honorable Deborah Senn
Insurance Commissioner, State of Washington
Insurance Building, PO Box 40255
Olympia, WA 98504-0255

Dear Commissioner:

Pursuant to your instructions and in compliance with the statutes of the State of Washington, an examination was made of the corporate affairs and financial records of the

Pacific Northwest Title Insurance Company, Inc.

of

Seattle, Washington

and this report of examination is respectfully submitted showing the condition of the Company as of December 31, 1995.

Scope of Examination

This is the first regular statutory examination of Pacific Northwest Title Insurance Company, Inc., hereinafter referred to as the "Company". This examination covers the period from January 1, 1993 through December 31, 1995. The examination was conducted at the Company's Home Office, located at 38th Floor, 1201 Third Avenue, Seattle, WA 98101-3055, by an examiner from the State of Washington, Insurance Commissioner's Office.

The examination was conducted in accordance with the examination procedures recommended in the NAIC Financial Condition Examiners Handbook and the financial regulation standards promulgated in the Washington Insurance Code (RCW Title 48).

Instructions

The Company is hereby instructed to comply with the following:

1. The Company's Annual Statement shows 43,375 issued and outstanding common shares of capital stock with par value of \$100 per share totalling \$4,337,500 of capital stock paid up. However, the annual statement reports \$5,000,000 capital stock paid up. The Company should reclassify paid in capital to capital stock to correct the amount of capital stock.
2. The Company should update its tri-party depository agreement dated October 28, 1970 with the First Interstate Bank. The current agreement is an agreement between Pacific National Bank of Washington, Commonwealth Title Insurance Company and Commissioner Karl Hermann. Since the agreement was executed, the bank's name and the Company's name have changed.
3. The Company's filed annual statement did not contain an actuarial certification of its reserves as required by WAC 284-07-060. The Company is instructed to comply with this beginning December 31, 1996.

Comments and Recommendations

The following Comments and Recommendations are given to the Company as a result of this examination.

1. The Company should always use the NAIC Annual Statement Blanks Guide and Annual Statement Instructions for Title Companies for preparing its annual statement. The Company complied and completed the 1995 annual statement filing using the guide. However, the 1994 Annual Statement was not prepared in accordance with NAIC instructions.
2. The Company must disclose the compensation of the five highest paid employees, regardless of the amount of annual compensation, as required in the Annual Statement's Supplemental Schedule.
3. A copy of the restated bylaws should be filed with the Company's Holding Company Statement. The Company should maintain a current copy of its bylaws in its office.
4. The Company should report federal income tax receivables as an asset, not a debit to a liability account, as was done in the 1994 and 1995 annual statements.
5. The Company does not have a policy of providing or obtaining conflict of interest statements from its officers and key employees. The Company's Board of Directors should establish a policy which requires annual disclosures of potential conflicts.
6. A comparison of the independent CPA's published report for the Company and the Company's filed annual statement for December 31, 1995 disclosed several differences in account balances. The Company should file with the Seattle Office of the Insurance Commissioner a schedule of differences with an explanation for each difference.

History

Commonwealth Title Insurance Company was acquired by Stewart Holding Company, Inc., (SHC) a Washington Company, from its parent company, TICOR Title Insurance Company. This transaction was described in the "Share Purchase Agreement Documents". The transaction was closed on March 31, 1993. The Office of the Insurance Commissioner, in accordance with the provisions of RCW 48.31.010(a), approved acquisition on February 16, 1993. (In Matter of the Acquisition of Commonwealth Title Insurance Company, G 92-66).

As a result of the purchase transaction, the following changes subsequently took effect:

- i. The parent company (SHC) requested a change of name of Commonwealth Title Insurance Company to **Pacific Northwest Title Insurance Company**.
- ii. A filing of the original Certificate of Amended and Restated Articles of Incorporation of Pacific Northwest Title Insurance Company was made with the OIC.

- iii. Amendment of the original Certificate of Authority in the State of Washington reflecting the name change, and the change of the Company's principal place of business from Tacoma to Seattle, Washington were filed.
- iv. Filing of the Pacific Northwest Title Insurance Company (registrant) of the Insurance Holding Company Registration Statement (Form B) with Office of the Insurance Commissioner.

Stewart Holding Company, (SHC), the "Parent" and principal owner, owns 92.22% of the issued and outstanding shares while Puget Sound Title Company owns 7.78% of the same.

SHC is in turn owned and controlled by Stewart Title Company (29%) of Texas, Peter Murphy (24%), Outside Investors (25%), and Employee & ESOP Shareholders (22%).

In addition to the Company, Stewart Holding Company also owned the following title companies:

- a. Stewart Title Company of Washington, Inc. (100%)
- b. Stewart Title Company of Snohomish, Inc. (90%)
- c. Stewart Title Company of Kitsap County, Inc. (35%)
- d. Title Insurance Agency of Juneau, Inc. (60%)
- e. Fairbanks Title Agency, Inc. (60%)
- f. Title Optics, Inc. (100%)
- g. Pacific Northwest Realty Holding, Inc. and Jackpot Investments, Inc. (100%)
- h. Stewart Title Company of Alaska, Inc. (60%)
- I. Stewart Title of Spokane, Inc. (100%)
- j. Stewart Title of Oregon, Inc. (81%)

Management and Control

The business and affairs of the Company are controlled by a seven member Board of Directors.

The Company signed a Management Services agreement with SHC on August 1, 1994 whereby the Company agrees to utilize the parent to provide management and administrative services. Pursuant to the agreement, the Company's business operations are managed by SHC for a term of one year and automatically renewed for one additional year. Based on this agreement, the Company is to pay SHC a management services fee of twenty (20%) of the Company's gross revenue calculated on a monthly basis.

All other expenses incurred for costs, liabilities and claims, outside legal, accounting and rating services and all other third party providers for goods and services shall be borne by the Company.

The Company is party to a tax allocation agreement with its parent. Under the agreement, the Company files a consolidated federal income tax return with Stewart Holding Company. The Company maintains separate tax liability, and as such shall not be liable for or required to make contributions on account of federal income taxes in excess of its equitable share.

Officers :

The following individuals serve as officers of the Company as of December 31, 1995:

Peter T. Murphy	President
Donald R. Kirkland	Vice President
Cynthia L. Olsen	Vice President
Raymond L. Davis	Vice President
Marilyn G. Anderson	Vice President
Roger L. Johnson	Vice President
James R. Gill	Treasurer and Secretary

Board of Directors:

The members of the Board of Directors serving the Company as of December 31, 1995 were as follows:

Peter T. Murphy	Chairman	Stewart Holding Company
Thomas B. Foster	Member	Foster Pepper & Shefelman
Donald R. Kirkland	Member	Stewart Title Company of WA
Frederick D. Paulsell	Member	Olympic Partners
Roger L. Johnson	Member	Puget Sound Title Company
Peter Eising	Member	Private Investor
James Gill	Secretary	Stewart Holding Company

Investment Committee:

The following individuals serve as the Company's Investment Committee as of December 31, 1995:

Peter Murphy	Chairman
Thomas Foster	Member
Roger Johnson	Member
Jim Gill	Member

Corporate Records

The examination review of corporate records disclosed the Company has not filed its restated Bylaws with the Office of the Insurance Commissioner. The minutes of the Stockholders' annual and regular meetings were reviewed for the years covered by this examination, and appear to comply with the documentation required by Washington statute.

Affiliated Companies

The following title companies are considered affiliates of the Company: Stewart Title Company of Washington, Inc., Stewart Title Company of Snohomish County, Inc., Stewart Title Company of Kitsap County, Inc., and Stewart Title of Spokane, Inc. These title companies have underwriting agreements with the Company. Stewart Title Company of Washington, Inc., Stewart Title Company of Snohomish County, Inc., Stewart Title Company of Kitsap County, Inc., Stewart Title Company of Spokane, Inc., are title companies licensed as agents for the Company, and for Stewart Guaranty Company, Inc., (Stewart Guaranty), a Texas Corporation. The agents issued title insurance policies in the names of PNWT and Stewart Guaranty. The title companies are licensed in King County, Snohomish County, Kitsap County, and Spokane County, respectively. As title insurance agents, the companies also provide escrow closing services for real estate transactions. The companies are separate corporations organized under the laws of the State of Washington. Stewart Holding Company is the majority owner of all the affiliates, and PNWT. To be licensed as an agent of a title insurer, RCW 48.29.160 requires the applicant to own or lease and maintain a complete set of tract indexes of the county or counties in which such agent will do business. Our examination disclosed that the underwriting agents either owned or leased complete sets of tract indexes of the county or counties in which such agent writes business.

Internal Security

SHC and the Company together with other subsidiaries are named insureds on an insurance policy covering property, computer & valuable records, commercial general liability, automobile liability & physical damage, crime and umbrella insurance.

The Company does not have a conflict of interest policy.

Territory and Plan of Operation

The Company's certificate of authority authorizes it to transact a general abstract and title insurance business in the State of Washington only.

Growth of the Company

Highlights of the Company's operating results are reported below:

<u>Years</u>	Direct Premiums	Admitted	Policyholders
	Written & Other		
	<u>Services Income</u>	<u>Assets</u>	<u>Surplus</u>
1993	\$ 532,376	\$1,100,290	\$900,920
1994	16,305	5,022,620	4,529,903**
1995	343,333	5,531,048	5,067,611

**Paid in capital was increased \$4,121,603 to \$5,000,000 in 1994 to enhance financial stability and improve market acceptance.

Guaranty Fund Deposit and Statutory Premium Reserve

The Company is required under RCWs 48.29.020 and 48.29.030 to maintain a guaranty fund deposit under a tri-party agreement with the Washington State Insurance Commissioner and a local depository bank. The amount of the guaranty fund deposit is determined by the population of the County in which the Company writes title insurance business. During the examination, it was noted the existing tri-party deposit guaranty agreement, dated October 28, 1970, is between Pacific National Bank of Washington and Commonwealth Title Insurance Company. The examiner instructed the Company to have this agreement renewed and to reflect current parties to the agreement. The amount of maximum deposit required under RCW 48.29.030 has been reached by the Company.

The Company is also required under RCW 48.29.120 to establish a Special reserve fund which shall be held by the Company as an additional guaranty fund. The fund shall be used only for the payment of losses after the insurer's liquid resources available for the payment of losses, other than such special reserve fund or the guaranty deposit fund deposit have been exhausted. The examination disclosed that the Company set aside the amount of 30% of premiums written as statutory deposit reserve for each year.

Year of Coverage	Insurance In Force	Required Reserve	Company Reserve
1994	\$ 60,327,015	\$15,081.75	\$501,803 *
1995	1,802,957,433	450,489.00	103,000
Total	1,863,284,448	\$465,570.75	\$ 604,803

* The Company did not provide an explanation of how this amount was developed for the year 1994, other than it has been the policy of management to maintain a reserve equivalent to 30% of premium written every year.

Reinsurance

The Company does not reinsure its business.

Subsequent Events

No event has occurred subsequent to the date of this examination that would materially affect the financial condition of the Company.

Accounts and Records

The Company maintained a system of accounts using ACCPAC proprietary accounting software on a personal computer. The ACCPAC software includes modules for: accounts payable, accounts receivable and general ledger. All payable and receivable transactions automatically post to the general ledger at the end of the month.

FINANCIAL STATEMENTS

Comparative Balance Sheet for the Years Ended December 31, 1995 and 1994

Comparative Underwriting and Investment Exhibit for the Years Ended December 31, 1995 and 1994

PACIFIC NORTHWEST TITLE INSURANCE COMPANY, INC.
COMPARATIVE BALANCE SHEET
DECEMBER 31, 1995 & 1994

ASSETS	1995	1994	Notes
Bonds	\$175,312	\$112,219	
Cash on hand and on deposit	5,250,767	4,890,777	
Federal income tax recoverable	141,365	9,086	
Investment income due and accrued	103,052	24,279	
Aggregate write-ins for other than invested assets	<u>1,917</u>	<u>(4,655)</u>	
Total assets:	<u>\$5,672,413</u>	<u>\$5,031,706</u>	
 LIABILITIES AND NET WORTH			
Statutory premium reserves	<u>\$604,802</u>	<u>\$501,803</u>	
Total liabilities	<u>\$604,802</u>	<u>\$501,803</u>	
Capital stock	\$4,337,500	\$4,337,500	
Gross paid in and contributed surplus	662,500	662,500	
Unassigned surplus funds	<u>67,611</u>	<u>(470,097)</u>	
Surplus as regards policyholders	<u>\$5,067,611</u>	<u>\$4,529,903</u>	
Total liabilities and net worth:	<u>\$5,672,413</u>	<u>\$5,031,706</u>	

PACIFIC NORTHWEST TITLE INSURANCE COMPANY, INC.
COMPARATIVE STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 1995 & 1994

OPERATING INCOME	1995	1994	Notes
Title insurance premiums earned	\$343,333	\$16,305	
Aggregate write-ins for other operating income	<u>142,307</u>	<u>-</u>	
Total operating income	\$485,640	\$16,305	
DEDUCTIONS			
Operating expenses incurred	<u>\$227,600</u>	<u>\$613,323</u>	
Total operating expenses	<u>227,600</u>	<u>613,323</u>	
Net operating gain or (loss)	\$258,040	\$(597,018)	
NET INVESTMENT INCOME			
Net investment income earned	<u>\$279,668</u>	<u>\$105,028</u>	
Net investment gain or (loss)	<u>\$279,668</u>	<u>\$105,028</u>	
OTHER INCOME			
Aggregate write-ins for miscellaneous income	<u>-</u>	<u>-</u>	
Net income, before federal income taxes	\$537,708	\$(491,990)	
Federal income taxes incurred	<u>-</u>	<u>-</u>	
Net income	<u>\$537,708</u>	<u>\$(491,990)</u>	
CHANGE IN CAPITAL AND SURPLUS			
Surplus as regards policyholders, December 31, previous year	<u>\$4,529,903</u>	<u>\$900,290</u>	
Net income	537,708	(491,990)	
Capital changes: Paid-in	<u>-</u>	<u>4,121,603</u>	
Surplus as regards policyholders, December 31, current year	<u>\$5,067,611</u>	<u>\$4,529,903</u>	

Notes to the Financial Statements:

Note 1. Operation and Significant Accounting Policies:

Pacific Northwest Title Insurance Company, Inc., (PNWTC) was purchased on March 31, 1993 by Stewart Holding Company (SHC). At the time of the purchase, the Company was named Commonwealth Title Insurance Company (Commonwealth). Immediately after the purchase, which was a stock transaction, the name was changed to PNWTC. All accounts of the company, other than cash and common stock equity, were divided or assumed by the former owner.

PNWTC did not begin to underwrite title insurance policies until late in 1994. Premium income was modest in that year as mostly equity policies were underwritten. During 1995, underwriting increased significantly, but premium income totaled less than \$400,000 for both years. Management designed the slow increase in operating activity in that year.

Revenue received from King county agents represented 92% of the total premium received in 1994. The premiums are recorded as earned when received.

Organization costs were expensed for statutory purposes.

The Company makes provision for estimated losses on title insurance policies it issued. The amount of annual accrual is based on management experience in the industry and it is in excess of the amount required under Washington State law.

Certificates of Deposits and money market instruments purchased with maturities of a year or less are included in the Cash equivalents.

The Company accounts for income tax in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, **Accounting for Income Taxes**. Under this method, deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities at enacted rates. The Company, the Holding Company and its five other subsidiaries file a consolidated income tax return on this basis. The provision for income taxes due for the years 1995 and 1994 was a tax benefit due to net operating losses incurred on those periods.

Note 2. Title Plants:

The Company negotiated a 20 year lease with Stewart Title Company of Washington, to use its title plants in King County, Washington. The other title companies that have been authorized by the Company to write title insurance as agents either owned or leased a complete set of tract indexes in the respective counties that they write business for the Company. It appears that the agents have complied with RCW 48.29.160.

Note 3. Guaranty Fund Deposit:

In compliance with RCW 48.29.020 and 48.29.030, the Company maintains the required minimum guaranty fund deposit with a local bank under a Triparty Agreement between the bank, the Company and the Office of the Insurance Commissioner. The funds deposited under this agreement totaled \$251,275 and \$235,871 as of December 31, 1995 and 1994.

Note 4. Related Party Transactions:

The Company incurred expenses pursuant to a management and administrative contract for the years 1995 and 1994 in the amount of \$124,600 and \$111,520 respectively. The Company has an underwriting agreement with Stewart Title Company of Washington, Stewart Title Company of Snohomish County, Stewart Title Company of Kitsap County, and Stewart Title Company of Spokane, Inc. In accordance with the underwriting agreement, these agents issue title insurance policies in King, Snohomish, Kitsap and Spokane Counties in Washington State, in the name of the Company. During 1995 and 1994, the financial statements of the Company are included in the consolidated financial statement of Stewart Holding Company.

Note 5. Paid in Capital

To increase the financial stability of the Company, paid in capital was increased \$4,121,603 to \$5,000,000 in 1994. This contribution was in cash.

Acknowledgment

Sincere gratitude and thanks are hereby expressed to the officers and employees of Stewart Holding Company for the cooperation and support extended to Mr. Peter M. Mendoza, CFE, CIE, Examiner-in-charge, during the examination of the Company.

Pacific Northwest Title Insurance Company

State of Washington)

) ss

County of King)

Peter M. Mendoza, being duly sworn, deposes and says that the foregoing report is true to the best of his knowledge and belief.

Peter M. Mendoza, CFE, CIE

Examiner-In-Charge

Subscribed and sworn to before me this _____ day of _____ 1996.

Colleen Jansen, Notary Public in and
for the State of Washington. Residing
at Seattle, Washington.